

# Effective Internal Audit in the Financial Services Sector

Comparison of the 2017 and  
2021 Code

The Chartered Institute of Internal Auditors ‘Guidance on Effective Internal Audit in the Financial Services Sector’ (‘the Code’) was originally published in July 2013 to ‘raise the bar’ of internal audit functions in financial services organisations and to promote good practice.

Following a consultation process and review by an independent committee, a new version of the Code was published in September 2017. A further review has recently been undertaken, primarily to align with the ‘Internal Audit Code of Practice: Guidance on effective internal audit in the private and third sectors’ that was published by the CIAA in January 2020.

Although the changes to the Code are not substantive, we recommend that the implications of the changes are carefully considered by internal audit functions and their audit committees.

The changes to the Code (highlighted in red) and the potential implications for internal functions are shown in this guide. The full text of the new Code can be found on the CIAA website [here](#).



Old Code (September 2017)	New code (January 2021)	Potential implications of the changes for IA functions
<b>The purpose of the code</b>		
<p>The recommendations which follow are aimed at enhancing the overall effectiveness of internal audit, and its impact, within organisations operating in the financial services sector in the UK.</p> <p>They can be regarded as a benchmark of good practice against which organisations can assess their internal audit function.</p>	<p>1 The recommendations which follow are aimed at enhancing the overall effectiveness of internal audit, and its impact, within organisations operating in the financial services sector in the UK and Ireland.</p> <p>They can be regarded as a benchmark of good practice against which organisations can assess their internal audit function.</p>	<p>Internal audit functions of financial services organisations in Ireland will need to adopt the Code if they haven't already.</p>
<b>Who is it for?</b>		
<p>The intended audience for this publication includes chief internal auditors, executive and non-executive directors, and in particular members of audit and risk committees, and regulatory bodies.</p>	<p>2 The intended audience for this publication includes chief audit executives, executive and non-executive directors, and in particular members of audit and risk committees, working in the financial services sector and regulatory bodies.</p> <p>This Code contains provisions which are specific to the financial services sector. Internal audit functions outside the financial services sector and within the private and third sectors should follow the 'Internal Audit Code of Practice: Guidance on effective internal audit in the private and third sectors'. This Code may prove useful for internal audit in the public sector, but it is not drafted with the public sector specifically in mind, and public sector internal audit functions should continue to follow the Public Sector Internal Audit Standards.</p>	<p>This provides clarity to internal audit functions and audit committees as to which Code applies to each sector.</p>

Old Code (September 2017)	New code (January 2021)	Potential implications of the changes for IA functions
<b>How should it be applied?</b>		
<p>The recommendations should be applied in conjunction with the existing International Professional Practices Framework published by the global Institute of Internal Auditors, which includes the International Standards for the Professional Practice of Internal Auditing ('the IIA Standards'). They build on those Standards, providing context specific to the financial services sector; and seeking to increase the effectiveness and impact of internal audit in organisations in that sector by clarifying expectations and requirements.</p>	<p>3 The Code of Practice should be applied in conjunction with the existing International Professional Practices Framework (IPPF) published by the global Institute of Internal Auditors, which includes the International Standards for the Professional Practice of Internal Auditing ('the IIA Standards').</p> <p>The Code builds on those Standards, providing context specific to the financial services sector; and seeks to increase the effectiveness and impact of internal audit in organisations in that sector by clarifying expectations and requirements.</p>	<p>No substantive change / impact.</p>
<p>The recommendations are principles based, rather than establishing detailed rules.</p> <p>They are written in the context of a reasonably-sized company operating within the UK regulated financial services sector. Small companies and branches of non-UK headquartered organisations in particular might need to make some modifications to the detail, in light of their size, risk profile and internal organisation, and the nature, scope and complexity of their operations: but all should comply with the principles.</p>	<p>4 The Code is principles-based.</p> <p>It is written in the context of a company operating within the UK and Ireland regulated financial services sector. It is expected that the procedural requirements of the Code should be applied proportionately, and therefore smaller organisations should apply the principles on which the Code is based and its procedural requirements in light of their size, risk profile and internal organisation and the nature, scope and complexity of their operations.</p>	<p>This provides greater flexibility for smaller organisations as the previous version of the Code required them to comply with the principles of the Code.</p> <p>Where smaller organisations take advantage of this, it is important that they can explain their approach and why it is proportionate to their audit committees (or equivalent body).</p>



Old Code (September 2017)	New code (January 2021)	Potential implications of the changes for IA functions
<b>Role and mandate of internal audit</b>		
1 The primary role of internal audit should be to help the board and executive management to protect the assets, reputation and sustainability of the organisation.  It does this by assessing whether all significant risks are identified and appropriately reported by management and the risk function to the board and executive management; assessing whether they are adequately controlled; and by challenging executive management to improve the effectiveness of governance, risk management and internal controls. The role of internal audit should be articulated in an internal audit charter, which should be publicly available.	5 The primary role of internal audit should be to help the board and executive management to protect the assets, reputation and sustainability of the organisation.  It does this by assessing whether all significant risks are identified and appropriately reported by management and the risk function to the board and executive management; assessing whether they are adequately controlled; and by challenging executive management to improve the effectiveness of governance, risk management and internal controls. The role of internal audit should be articulated in an internal audit charter, which should be publicly available.	N/A
2 The board, its committees and executive management should set the right 'tone at the top' to ensure support for, and acceptance of, internal audit at all levels of the organisation.	6 The board, its committees and executive management should set the right 'tone at the top' to ensure support for, and acceptance of, internal audit at all levels of the organisation.	N/A



Old Code (September 2017)	New code (January 2021)	Potential implications of the changes for IA functions
<b>Scope and priorities of internal audit</b>		
3 <b>Internal audit's scope should be unrestricted</b>  There should be no aspect of the organisation which internal audit should be restricted from looking at as it delivers on its mandate. Whilst it is not the role of internal audit to second guess the decisions made by the board and its committees, its scope should include information presented to the board and its committees as discussed further below.	7 <b>Internal audit's scope should be unrestricted</b>  There should be no aspect of the organisation which internal audit should be restricted from looking at as it delivers on its mandate. Whilst it is not the role of internal audit to second guess the decisions made by the board and its committees, its scope should include information presented to the board and its committees as discussed further below.	N/A
4 <b>Risk assessments and prioritisation of internal audit work</b>  In setting its scope, internal audit should form its own judgement on how best to segment the audit universe given the structure and risk profile of the organisation. It should take into account business strategy and should form an independent view of whether the key risks to the organisation have been identified including emerging and systemic risks, and assess how effectively these risks are being managed. Internal audit's independent view should be informed, but not determined, by the views of management or the risk function. In setting out its priorities and deciding where to carry out more detailed work, internal audit should focus on the areas where it considers risks to be higher.  Internal audit should make a risk-based decision as to which areas within its scope should be included in the audit plan – it does not necessarily have to cover all of the scope areas every year. Its judgement on which areas should be covered in the audit plan, and on the frequency and method of audit cycle coverage, should be subject to approval by the audit committee.	8 <b>Risk assessments and prioritisation of internal audit work</b>  In setting its scope, internal audit should form its own judgement on how best to segment the audit universe given the structure and risk profile of the organisation. It should take into account business strategy and should form an independent view of whether the key risks to the organisation have been identified, including emerging and systemic risks, and assess how effectively these risks are being managed. Internal audit's independent view should be informed, but not determined, by the views of management or the risk function. In setting out its priorities and deciding where to carry out more detailed work, internal audit should focus on the areas where it considers risks to be higher.  Internal audit should make a risk-based decision as to which areas within its scope should be included in the audit plan – it does not necessarily have to cover all of the scope areas every year. Its judgement on which areas should be covered in the audit plan, and on the frequency and method of audit cycle coverage, should be subject to approval by the audit committee.	N/A



Old Code (September 2017)	New code (January 2021)	Potential implications of the changes for IA functions
5 <b>Internal audit coverage and planning.</b>  Internal audit plans, and material changes to internal audit plans, should be approved by the audit committee. They should have the flexibility to deal with unplanned events to allow internal audit to prioritise emerging risks. Changes to the audit plan should be considered in light of internal audit's ongoing assessment of risk.	9 <b>Internal audit coverage and planning</b>  Internal audit plans, and material changes to internal audit plans, should be approved by the audit committee. They should have the flexibility to deal with unplanned events to allow internal audit to prioritise emerging risks. Changes to the audit plan should be considered in light of internal audit's ongoing assessment of risk.	N/A
6 <b>Scope of internal audit.</b>  The scope of internal audit's work should be regularly reviewed to take account of new and emerging risks. Where relevant, internal audit should assess not only the process followed by the organisation's first and second lines of defence, but also the quality of their work.  As a minimum, internal audit should include within its scope the following areas	10 <b>Scope of internal audit</b>  The scope of internal audit's work should be regularly reviewed to take account of new and emerging risks. Where relevant, internal audit should assess not only the process followed by the organisation's first and second lines, but also the quality of their work.  As a minimum, internal audit should include within its scope the following areas	N/A
a <b>Internal governance</b>  Internal audit should include within its scope the design and operating effectiveness of the internal governance structures and processes of the organisation.	a <b>Internal governance</b>  Internal audit should include within its scope the design and operating effectiveness of the internal governance structures and processes of the organisation.	N/A
b <b>The information presented to the board and executive management for strategic and operational decision making</b>  Internal audit should include within its scope the processes and controls supporting strategic and operational decision making. It should assess whether the information presented to the board and executive management fairly represents the benefits risks and assumptions associated with the strategy and corresponding business model.	b <b>The information presented to the board and executive management for strategic and operational decision making</b>  Internal audit should include within its scope the processes and controls supporting strategic and operational decision making. It should assess whether the information presented to the board and executive management, fairly represents the benefits, risks and assumptions associated with the strategy and corresponding business model.	N/A

Old Code (September 2017)	New code (January 2021)	Potential implications of the changes for IA functions
c <b>The setting of, and adherence to, risk appetite</b>  Internal audit is not responsible for setting the risk appetite but should assess whether the risk appetite has been established and reviewed through the active involvement of the board and executive management. It should assess whether risk appetite is embedded within the activities, limits and reporting of the organisation; and it should report annually to the audit committee its conclusions on whether the organisation's risk appetite framework is being adhered to.	c <b>The setting of, and adherence to, the risks the entity is willing to accept (risk appetite)</b>  Internal audit is not responsible for setting the risk appetite but should assess whether the risk appetite has been established and reviewed through the active involvement of the board and executive management. It should assess whether risk appetite is embedded within the activities, limits and reporting of the organisation; and it should report annually to the audit and risk committees its conclusions on whether the organisation's risk appetite framework is being adhered to.	Internal audit functions will need to ensure their annual report is presented to the risk committee as well as the audit committee.
d <b>The risk and control culture of the organisation</b>  Internal audit should include within its scope the risk and control culture of the organisation. This should include assessing whether the processes (e.g. appraisal and remuneration), actions (e.g. decision making), 'tone at the top' and observed behaviours across the organisation are in line with the espoused values, ethics, risk appetite and policies of the organisation.  Internal audit should consider the attitude and assess the approach taken by all levels of management to risk management and internal control. This should include management's actions in addressing known control deficiencies as well as management's regular assessment of controls.	d <b>The risk and control culture of the organisation</b>  Internal audit should include within its scope the risk and control culture of the organisation. This should include assessing whether the processes (e.g. appraisal and remuneration), actions (e.g. decision making), 'tone at the top' and observed behaviours across the organisation are in line with the espoused values, ethics, risk appetite and policies of the organisation.  Internal audit should consider the attitude and assess the approach taken by all levels of management to risk management and internal control. This should include management's actions in addressing known control deficiencies as well as management's regular assessment of controls.	N/A



Old Code (September 2017)	New code (January 2021)	Potential implications of the changes for IA functions
<p><b>e Risks of poor customer treatment, giving rise to conduct or reputational risk</b></p> <p>Internal audit should evaluate whether the organisation is acting with integrity in its dealings with customers and in its interaction with relevant markets.</p> <p>Internal audit should evaluate whether business and risk management is adequately designing and controlling products, services and supporting processes in line with customer interests and conduct regulation.</p>	<p><b>e Risks of poor customer treatment, giving rise to conduct or reputational risk</b></p> <p>Internal audit should evaluate whether the organisation is acting with integrity in its dealings with customers and in its interaction with relevant markets.</p> <p>Internal audit should evaluate whether business and risk management is adequately designing and controlling products, services and supporting processes in line with customer interests, <b>protection of customer data</b> and conduct regulation.</p>	<p>Internal audit functions will need to ensure that the protection of customer data is within the scope of the audit plan.</p>
<p><b>f Capital and liquidity risks</b></p> <p>Internal audit should include within its scope the modelling and management of the organisation's capital and liquidity risks.</p>	<p><b>f Capital and liquidity risks</b></p> <p>Internal audit should include within its scope the modelling and management of the organisation's capital and liquidity risks, <b>including the process for establishing and maintaining scenario analysis (stress testing) in relation to major risk categories, and recovery plans related to economic shocks.</b></p>	<p>Internal audit functions will need to assess the extent to which scenario analysis/stress testing is within the scope of work, as well as financial recovery plans.</p>
<p><b>g Key corporate events</b></p> <p>Examples of key corporate events could include significant business process changes, introduction of new products and services, outsourcing decisions and acquisitions/divestments. Internal audit should decide if these events are sufficiently high risk to warrant involvement on a real time basis. In doing so, internal audit will evaluate whether the key risks are being adequately addressed (including by other forms of assurance, e.g. third party due diligence) and reported. Internal audit should also assess whether the information being used in such key decision making is fair, balanced and reasonable, and whether the related procedures and controls have been followed.</p>	<p><b>g Key corporate events</b></p> <p>Examples of key corporate events could include significant business process changes, introduction of new products and services, outsourcing decisions and acquisitions/divestments. Internal audit should decide <b>on a timely basis</b> if these events are sufficiently high risk to warrant involvement. In doing so, internal audit will evaluate whether the key risks are being adequately addressed (including by other forms of assurance, e.g. due diligence) and reported. Internal audit should also assess whether the information being used in such key decision making is fair, balanced and reasonable, and whether the related procedures and controls have been followed.</p>	<p>Internal audit functions will need to ensure that they are proactively monitoring key corporate events and respond in a timely basis. For example, this might include attending strategy meetings to identify and understand what key corporate events are planned.</p>

Old Code (September 2017)	New code (January 2021)	Potential implications of the changes for IA functions
<p><b>h Outcomes of processes</b></p> <p>Internal audit should evaluate the design and operating effectiveness of the organisation's policies and processes. In doing so, it should not adopt a 'tick box' approach based purely on the design of processes and controls, and should always consider the actual outcomes which result from their application, assessed against the espoused values, ethics, risk appetite and policies of the organisation.</p>	<p><b>h Outcomes of processes</b></p> <p>Internal audit should evaluate the design and operating effectiveness of the organisation's policies and processes. In doing so, it should not adopt a 'tick box' approach based purely on the design of processes and controls, and should always consider the actual outcomes which result from their application, assessed against the espoused values, ethics, risk appetite and policies of the organisation</p>	N/A
<p><b>Reporting results</b></p>		
<p><b>7</b> Internal audit should be present at, and issue reports to the appropriate governing bodies, including the board audit committee, the board risk committee and any other board committees as appropriate. The nature of the reports will depend on the remits of the respective governing bodies.</p>	<p><b>11</b> Internal audit should be present at, and issue reports to the appropriate governing bodies, including the board audit committee, the board risk committee and any other board committees as appropriate. The nature of the reports will depend on the remits of the respective governing bodies.</p>	N/A



Old Code (September 2017)	New code (January 2021)	Potential implications of the changes for IA functions
8 Internal audit's reporting to the board audit and/or risk committees should include:	12 Internal audit's reporting to the board audit, board risk and <b>any other board committees</b> should include:	We typically see internal audit functions reporting these matters to audit committees (or in some cases to risk committees e.g. where audit and risk are combined). Internal audit functions should therefore assess whether additional reporting to risk committees and any other board committees is now required.
<ul style="list-style-type: none"> <li>a focus on significant control weaknesses and breakdowns together with a robust root-cause analysis. Internal audit's reports should identify owners, accountabilities and timescales for each management action;</li> <li>any thematic issues identified across the organisation;</li> <li>an independent view of management's reporting on the risk management of the organisation, including a view on management's remediation plans (which might include restricting further business until improvements have been implemented), highlighting areas where there are significant delays;</li> <li>a review of any post-mortem and 'lessons learned' analysis if a significant adverse event has occurred at an organisation (for example, a regulatory breach). Any such review should assess both the role of the first and second lines and internal audit's own role; and</li> <li>at least annually, an assessment of the overall effectiveness of the governance, and risk and control framework of the organisation, and its conclusions on whether the organisation's risk appetite framework is being adhered to, together with an analysis of themes and trends emerging from internal audit work and their impact on the organisation's risk profile.</li> </ul>	<ul style="list-style-type: none"> <li>a focus on significant control weaknesses and breakdowns together with a robust root-cause analysis. Internal audit's reports should identify owners, accountabilities and timescales for each management action;</li> <li>any thematic issues identified across the organisation;</li> <li>an independent view of management's reporting on the risk management of the organisation, including a view on management's remediation plans (which might include restricting further business until improvements have been implemented), highlighting areas where there are significant delays;</li> <li>a review of any post-mortem and 'lessons learned' analysis if a significant adverse event has occurred at an organisation (for example, a regulatory breach). Any such review should assess both the role of the first and second lines and internal audit's own role; and</li> <li>at least annually, an assessment of the overall effectiveness of the governance, and risk and control framework of the organisation, and its conclusions on whether the organisation's risk appetite framework is being adhered to, together with an analysis of themes and trends emerging from internal audit work and their impact on the organisation's risk profile.</li> </ul>	

Old Code (September 2017)	New code (January 2021)	Potential implications of the changes for IA functions
<b>Interaction with risk management, compliance and finance</b>		
9 Effective risk management, compliance and finance functions are an essential part of an organisation's corporate governance structure. Internal audit should be independent of these functions and be neither responsible for, nor part of, them.	13 Effective risk management, compliance and finance functions are an essential part of an organisation's corporate governance structure. Internal audit should be independent of these functions and be neither responsible for, nor part of, them.	N/A
10 Internal audit should include within its scope an assessment of the adequacy and effectiveness of the risk management, compliance and finance functions. In evaluating the effectiveness of internal controls and risk management processes, in no circumstances should internal audit rely exclusively on the work of risk management, compliance or finance. Internal audit should always examine, for itself, an appropriate sample of the activities under review.	14 Internal audit should include within its scope an assessment of the adequacy and effectiveness of the risk management, compliance and finance functions. In evaluating the effectiveness of internal controls and risk management processes, in no circumstances should internal audit rely exclusively on the work of risk management, compliance or finance. Internal audit should always examine, for itself, an appropriate sample of the activities under review.	N/A
11 Internal audit should exercise informed judgement as to what extent it is appropriate to take account of relevant work undertaken by others, such as risk management, compliance or finance in either its risk assessment or determination of the level of audit testing of the activities under review. Any judgement which results in less intense internal audit scrutiny should only be made after an evaluation of the effectiveness of that function in relation to the area under review.	15 Internal audit should exercise informed judgement as to what extent it is appropriate to take account of relevant work undertaken by others, such as risk management, compliance or finance in either its risk assessment or determination of the level of audit testing of the activities under review. Any judgement which results in less intense internal audit scrutiny should only be made after an evaluation of the effectiveness of that function in relation to the area under review.	N/A



Old Code (September 2017)	New code (January 2021)	Potential implications of the changes for IA functions
<b>Independence and authority of internal audit</b>		
12 The chief internal auditor should be at a senior enough level within the organisation (normally expected to be at executive committee or equivalent) to give him or her the appropriate standing, access and authority to challenge the executive. Subsidiary, branch and divisional heads of internal audit should also be of a seniority comparable to the senior management whose activities they are responsible for auditing.	16 The chief audit executive should be at a senior enough level within the organisation (normally expected to be at executive committee or equivalent) to have the appropriate standing, access and authority to challenge the executive. Subsidiary, branch and divisional heads of internal audit should also be of a seniority comparable to the senior management whose activities they are responsible for auditing.	N/A
13 Internal audit should have the right to attend and observe all or part of executive committee meetings and any other key management decision making fora.	17 Internal audit should have the right to attend and observe all or part of executive committee meetings and any other key management decision making fora.  <i>This enables internal audit to understand better the strategy of the business, key business issues and decisions, and to adjust internal audit priorities where appropriate. It also facilitates a better working relationship with executive committee members.</i>	Internal audit functions will need to consider whether their attendance at committee meetings or other fora are sufficient and achieving the intended objectives of better understanding the business strategy, issues and decisions as well as facilitating better working relationships with executives.
14 Internal audit should have sufficient and timely access to key management information and a right of access to all of the organisation's records, necessary to discharge its responsibilities.  In organisations in which the internal audit function is outsourced, the chair of the audit committee should identify an appropriate individual responsible for ensuring that the Chief Internal Auditor has sufficient and timely access to key management information and decisions.	18 Internal audit should have sufficient and timely access to key management information and a right of access to all of the organisation's records, necessary to discharge its responsibilities.  In organisations in which the internal audit function is outsourced <i>this Code still applies, and the chief audit executive should always be employed directly by the organisation to ensure they have</i> sufficient and timely access to key management information and decisions.	Where the internal audit function is outsourced, must ensure that there is someone employed directly by the organisation must who takes on the role and responsibility of the chief audit executive. This will ensure there is internal accountability which is important for the regulators.

Old Code (September 2017)	New code (January 2021)	Potential implications of the changes for IA functions
15 The primary reporting line for the chief internal auditor should be to the chair of the audit committee.  In exceptional circumstances, the board may wish for internal audit to report directly to the chair of the board, or delegate responsibility for the reporting line to the chair of the board risk committee, provided the chair of the board risk committee and all the other committee members are independent Non-Executive Directors. The reporting line must avoid any impairment to internal audit's independence and objectivity.	19 The primary reporting line for the chief audit executive should be to the chair of the audit committee.	The removal of the exceptional circumstance provision that was in the 2017 version of the Code implies that it is expected that most financial service services organisations will now have an audit committee in place. If this is not the case, internal audit functions will need to assess their reporting lines and governance arrangements and how they can achieve the requirements of the Code.
16 The audit committee should be responsible for appointing the chief internal auditor and removing him/her from post.	20 The audit committee should be responsible for appointing the chief audit executive and removing him/her from post.	N/A
17 The chair of the audit committee should be accountable for setting the objectives of the chief internal auditor and appraising his/her performance at least annually. It would be expected that the objectives and appraisal would take into account the views of the chief executive.  This appraisal should consider the independence, objectivity and tenure of the chief internal auditor. Where the tenure of the chief internal auditor exceeds seven years, the audit committee should explicitly discuss annually the chair's assessment of the chief internal auditor's independence and objectivity.	21 The chair of the audit committee should be accountable for setting the objectives of the chief audit executive and appraising his/her performance at least annually. It would be expected that the objectives and appraisal would take into account the views of the chief executive.  This appraisal should consider the independence, objectivity and tenure of the chief audit executive. Where the tenure of the chief audit executive exceeds seven years, the audit committee should explicitly discuss annually the chair's assessment of the chief audit executive's independence and objectivity.	N/A





Old Code (September 2017)	New code (January 2021)	Potential implications of the changes for IA functions
18	22	N/A
The chair of the audit committee should be responsible for recommending the remuneration of the chief internal auditor to the remuneration committee. The remuneration of the chief internal auditor and internal audit staff should be structured in a manner such that it avoids conflicts of interest, does not impair their independence and objectivity and should not be directly or exclusively linked to the short term performance of the organisation.	The chair of the audit committee should be responsible for recommending the remuneration of the chief audit executive to the remuneration committee. The remuneration of the chief audit executive and internal audit staff should be structured in a manner that avoids conflicts of interest, does not impair their independence and objectivity and should not be directly or exclusively linked to the short term performance of the organisation.	
19	23	N/A
Subsidiary (including ring-fenced bank), branch and divisional heads of internal audit should report primarily to the group chief internal auditor, while recognising local legislation or regulation as appropriate. This includes the responsibility for setting budgets and remuneration, conducting appraisals and reviewing the audit plan. The group chief internal auditor should consider the independence, objectivity and tenure of the subsidiary, branch or divisional heads of internal audit when performing their appraisals.	Subsidiary (including ring-fenced bank), branch and divisional heads of internal audit should report primarily to the group chief audit executive, while recognising local legislation or regulation as appropriate. This includes the responsibility for setting budgets and remuneration, conducting appraisals and reviewing the audit plan. The group chief audit executive should consider the independence, objectivity and tenure of the subsidiary, branch or divisional heads of internal audit when performing their appraisals.	
20	24	N/A
If internal audit has a secondary executive reporting line, this should be to the CEO in order to preserve independence from any particular business area or function and to establish the standing of internal audit alongside the executive committee members.	If internal audit has a secondary executive reporting line, this should be to the CEO in order to preserve independence from any particular business area or function and to establish the standing of internal audit alongside the executive committee members.	

Old Code (September 2017)	New code (January 2021)	Potential implications of the changes for IA functions
<b>Resources</b>		
21	25	N/A
The chief internal auditor should ensure that the audit team has the skills and experience, including technical subject matter expertise, commensurate with the scale of operations and risks of the organisation. This may entail training, recruitment, secondment from other parts of the organisation or co-sourcing with external third parties.	The chief audit executive should ensure that the audit team has the skills and experience, including technical subject matter expertise, commensurate with the scale of operations and risks of the organisation. This may entail training, recruitment, secondment from other parts of the organisation or co-sourcing with external third parties.	
22	26	N/A
The chief internal auditor should provide the audit committee with a regular assessment of the skills required to conduct the work needed, and whether the internal audit budget is sufficient to recruit and retain staff or procure other resources with the expertise, experience and objectivity necessary to provide effective challenge throughout the organisation and to the executive.	The chief audit executive should provide the audit committee with a regular assessment of the skills required to conduct the work needed, and whether the internal audit budget is sufficient to recruit and retain staff for procure other resources with the expertise, experience and objectivity necessary to provide effective challenge throughout the organisation and to the executive.	
23	27	N/A
The audit committee should be responsible for approving the internal audit budget and, as part of the board's overall governance responsibility, should disclose in the annual report whether it is satisfied that internal audit has the appropriate resources.	The audit committee should be responsible for approving the internal audit budget and, as part of the board's overall governance responsibility, should disclose in the annual report whether it is satisfied that internal audit has the appropriate resources.	



Old Code (September 2017)	New code (January 2021)	Potential implications of the changes for IA functions
<b>Quality Assessment and Improvement Programme (QAIP)</b>		
24 The board or the audit committee is responsible for evaluating the performance of the internal audit function on a regular basis. In doing so it will need to identify appropriate criteria for defining the success of internal audit. Delivery of the audit plan should not be the sole criterion in this evaluation.	28 The board or the audit committee is responsible for evaluating the performance of the internal audit function on a regular basis. In doing so it will need to identify appropriate criteria for defining the success of internal audit. Delivery of the audit plan should not be the sole criterion in this evaluation.	N/A
25 Internal audit should maintain an up-to-date set of policies and procedures, and performance and effectiveness measures for the internal audit function. Internal audit should continuously improve these in light of industry developments.	29 Internal audit should maintain an up-to-date set of policies and procedures, and performance and effectiveness measures for the internal audit function. Internal audit should continuously improve these in light of industry developments.	N/A
26 Internal audit functions of sufficient size should develop a quality assurance capability, with the work performed by individuals who are independent of the delivery of the audit. The individuals performing the assessments should have the standing and experience to meaningfully challenge internal audit performance and to ensure that internal audit judgements and opinions are adequately evidenced.  The scope of the quality assurance review should include internal audit's understanding and identification of risk and control issues, in addition to the adherence to audit methodology and procedures.  This may require the use of resource from external parties. The quality assurance work should be risk-based to cover the higher risks of the organisation and of the audit process. The results of these assessments should be presented directly to the audit committee at least annually.	30 Internal audit functions of sufficient size should develop a <b>quality assurance and improvement programme</b> , with the work performed by individuals who are independent of the delivery of the audit. The individuals performing the assessments should have the standing and experience to meaningfully challenge internal audit performance and to ensure that internal audit judgements and opinions are adequately evidenced.  The scope of the <b>QAIP</b> review should include internal audit's understanding and identification of risk and control issues, in addition to the adherence to audit methodology and procedures.  This may require the use of resource from external parties. The quality assurance work should be risk-based to cover the higher risks of the organisation and of the audit process. The results of these assessments should be presented directly to the audit committee at least annually.	No substantive change / impact.

Old Code (September 2017)	New code (January 2021)	Potential implications of the changes for IA functions
27 Where the internal audit function is outsourced to an external provider, internal audit's work should be subject to the same quality assurance work as the in-house functions. The results of this quality assurance work should be presented to the audit committee at least annually for review.	31 Where the internal audit function is outsourced to, <b>or co-sourced with</b> , an external provider, internal audit's work should be subject to the same <b>QAIP</b> work as the in-house functions. The results of this <b>QAIP</b> work should be presented to the audit committee at least annually for review.  <b>Chief audit executives should report regularly to the audit committee on the actions or progress implementing the outcomes of the review.</b>	Internal audit functions using co-source providers will now need to consider QAIP requirements and how they will ensure that the external providers will be subject to the same QAIP work and report on this to the audit committee.  Processes for monitoring and reporting on the actions or progress implementing the outcomes of the review of outsource and co-source providers will need to be established between the parties.
28 In addition, the audit committee should obtain an independent and objective external assessment at appropriate intervals, irrespective of the size of the organisation. This could take the form of periodic reviews of elements of the function, or a single review of the overall function. In any event, the internal audit function as a whole should as a minimum be subject to a review at least every five years, as set out in the International Professional Practice Framework for internal audit. The conformity of internal audit with this guidance should be explicitly included in this evaluation. The chair of the audit committee should oversee and approve the appointment process for the independent assessor.	32 In addition, the audit committee should obtain an independent and objective external <b>quality</b> assessment at appropriate intervals, irrespective of the size of the organisation. This could take the form of periodic reviews of elements of the function, or a single review of the overall function. In any event, the internal audit function as a whole should as a minimum be subject to a review at least every five years, as set out in the International Professional Practices Framework ( <b>IPPF</b> ) for internal audit. The conformity of internal audit with this guidance should be explicitly included in this evaluation. The chair of the audit committee should oversee and approve the appointment process for the independent assessor.	No substantive change / impact.
	33 <b>The external quality assessment should consider and report on compliance with this Code as well as with the International Professional Practices Framework (IPPF) and International Standards for the Professional Practice of Internal auditing ('the IIA Standards').</b>	Internal audit functions will need to ensure that the scope and report on external quality assessment explicitly considers the Code as well as IPPF and IIA Standards.



Old Code (September 2017)	New code (January 2021)	Potential implications of the changes for IA functions
<b>Relationship with Regulators</b>		
29. The chief internal auditor, and other senior managers within internal audit, should have an open, constructive and co-operative relationship with regulators which supports sharing of information relevant to carrying out their respective responsibilities.	34. The chief audit executive, and other senior managers within internal audit, should have an open, constructive and co-operative relationship with regulators which supports sharing of information relevant to carrying out their respective responsibilities.	N/A
<b>Relationship with External Audit</b>		
	35. <b>The chief audit executive and the partner responsible for external audit should ensure appropriate and regular communication and sharing of information.</b>	In practice, internal audit functions usually have some communication with external auditors. However, this new requirement may trigger a need to assess the frequency or quality of this communication and sharing of information.

Old Code (September 2017)	New code (January 2021)	Potential implications of the changes for IA functions
<b>Wider considerations</b>		
	30. The Chartered Institute of Internal Auditors should develop practical materials for internal auditors on the application and implementation of specific aspects of this guidance, aimed in particular at smaller institutions. Such material should focus on examples of good practice, and should not be seen as adding to the requirements of this guidance. In particular, less well established areas for internal audit activity would benefit from such material.	N/A
31. Chartered Institute of Internal Auditors should commission further independent reviews of this guidance every five years, in the light of further experience, with a view to deciding whether any further changes are required.	36. The Chartered Institute of Internal Auditors should commission further independent reviews of this guidance at least every five years, in the light of further experience, with a view to deciding whether any further changes are required	N/A



## Other considerations

As a result of the changes, internal audit functions should formally review and update the following records (where appropriate):

- Internal audit charter
- Internal audit policy / procedures
- Contractual arrangements or service agreements with outsource and co-source providers e.g. to ensure that new requirements in respect of QAIP are addressed

## How we can help

PKF's Governance, Risk and Control Assurance team provides comprehensive solutions to the financial services sector.

Our trusted team offers a full range of services, such as reviews of governance framework and board effectiveness, internal audit, compliance monitoring support, IT assurance – including cyber security and data protection – SOX compliance and also internal control assurance and reports for service providers.

Our flexible approach allows us to not only recognise the different needs of our clients but to work with you to create a solution that meets your requirements from both a commercial and regulatory perspective.

We work closely with heads of both second- and third-line functions, and board members, to provide services in several different ways. This includes:

- Outsourcing – We will act as your in-house team, reporting to the chair of the governance/audit committee.
- Co-sourcing – If you have an established in-house team, we will work alongside them to give you additional resources or specific expertise to review large or complex projects, or to supplement your in-house team at peak times.
- Secondments – We provide experienced staff to work as an integral part of your in-house team.
- Consulting – We provide a range of consulting services, such as advising heads of internal audit on best practice.
- Training – We provide training on regulatory priorities or topical subjects, highlighting best practice approaches to governance, risk management and internal audit.

Our expert team can help you ensure you are following the Code.

To find out more please contact us.



**Jessica Wills**

Partner & Head of Governance,  
Risk & Control Assurance

+44 (0)20 7516 2229

jwills@pkf-l.com



---

PKF Littlejohn LLP,  
15 Westferry Circus,  
Canary Wharf,  
London E14 4HD

Tel: +44 (0)20 7516 2200  
[www.pkf-l.com](http://www.pkf-l.com)

---

This document is prepared as a general guide. No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the author or publisher. This information is in accordance with legislation in place at.

PKF Littlejohn LLP, Chartered Accountants. A list of members' names is available at the above address. PKF Littlejohn LLP is a limited liability partnership registered in England and Wales No. 0C342572. Registered office as above. PKF Littlejohn LLP is a member firm of the PKF International Limited family of legally independent firms and does not accept any responsibility or liability for the actions or inactions of any individual member or correspondent firm or firms.

PKF International Limited administers a network of legally independent firms which carry on separate business under the PKF Name.

PKF International Limited is not responsible for the acts or omissions of individual member firms of the network.

